

Internal Revenue Service
Director, Exempt Organizations

Department of the Treasury
P.O. Box 2508 - Room 4010
Cincinnati, OH 45201

Date: NOV 19 2001

Employer Identification Number:

DLN:

Person to Contact - I.D.#

Contact Telephone Numbers:

Phone

FAX

Dear Sir or Madam:

We have considered your application for recognition of exemption from Federal income tax under the provisions of Section 501(c)(6) of the Internal Revenue Code of 1986 and its applicable Income Tax Regulations. Based on the available information, we have determined that you do not qualify for the reasons set forth.

The evidence presented disclosed that the organization was incorporated on [REDACTED] under the General Non-profit Corporation Law of [REDACTED].

The purpose for which the corporation was formed are as follows:

- a. The primary business in which this corporation intends initially to engage is to promote and further the interests of [REDACTED] better-dress industry by all proper and legitimate methods.
- b. To coordinate members for opening dates for seasonal showings, and to organize, promote, put on, stage, hold shows, exhibits and conduct such exhibits and programs of all kinds, character and/or description, and upon such terms and conditions as may, from time to time, be determined desirable, proper, useful and/or beneficial for the furtherance of the objects and purposes of the organization.
- c. To initiate, institute, conduct, carry on, promote or in any manner aid or assist in publicity campaigns for the furtherance and betterment of the interests of the members and the promotion of amicable relations between the members and any other group or the public at large.
To conduct, maintain and operate an agency or bureau for the purpose of advising, assisting, protecting and promoting the interests of its members.

The information submitted in your application Form 1024 indicates that your organization is a cohesive, cooperative trade group numbering from [REDACTED] to [REDACTED] better priced ready-to-wear fashion designers who show their collections and designs to retailers seasonally in [REDACTED] at [REDACTED]. These fashion openings are held five times a year, in February, April, August, September and November; each for a period of 4 to 5 days. These fashion shows are the organization's primary activities. The organization retains [REDACTED] as executive director on an hourly fee ([REDACTED] per hour) basis plus expenses. The executive director is also the

secretary of the organization. The executive director works directly with [redacted] management in pre-arranging show dates and makes room arrangements for the organization's members. He also coordinates, arranges for and has printed an illustrated directory for each of the 5 fashion shows in addition to maintaining an accurate retailer mailing list. The director determines each firm's show fee based on projected expenses, which he then collects from cooperating members of the organization.

In your letter dated [redacted], you stated the following:

- a. As a cooperative trade group, your organization collects "show fees" from your members at the time that the fashion shows are held at [redacted]
- b. Exhibitions/trade shows are held five times a year in [redacted] s [redacted]. Overall, the shows are designed to introduce retailers throughout the country to the upscale fashion industry. By doing so, [redacted] helps promote the overall fashion industry and manufacturers of upscale garments. [redacted] provides designers and manufacturers the opportunity to meet. Although orders for goods may be taken, all primary sales activity occurs following the exhibit.
- c. On your Forms 1120 for the prior years, advertising is your primary expense. This advertising expense consists of "Retailer mailing list preparation and maintenance", "Directory/catalogue preparation for each of the five fashion shows at [redacted]", "Postage and mailing expenses", "Envelopes for Directories", "Periodic advance mailing card invitation to retailers", "Monthly listing in a [redacted] periodical called [redacted]", "Periodic publicity releases to publications".
- d. You state that "show fees" are based on projected expenses that are contributed from cooperating members of your organization. These "show fees" consists of "Periodic directory re-design", "Advertising [redacted]", "Artists services (illustrations) for Directory", "Mailing list corrections" and "Printing of Directories, Advance Cards & Envelopes". Most of your directories and booklets advertise members names and business addresses.

In Your letter dated [redacted], you stated the following:

Individual exhibitors at [redacted] each have their own exhibit. [redacted]'s primary purpose is to arrange the fashion shows for the purpose of introducing designers to retailers and manufacturers.

Your application Form 1024 states that the organization's only source of financial support consists of show fees based on projected expenses that are contributed from cooperating members at the fashion shows.

Section 501(c)(6) of the Code provides for the exemption from Federal income tax of business leagues not organized for profit, no part of the net earnings of which inures to the benefit of any private shareholder or individual.

Section 1.501(c)(6)-1 of the Income Tax Regulations defines a business league as an association of persons having some common business interest, the purpose

[REDACTED]

of which is to promote such common interest. Its activities should be directed towards the improvement of business conditions in one or more lines of business as distinguished from the performance of particular services for individual persons.

In the following situations, exemption was denied because the activities were found to constitute the performance of particular services for individual members:

Revenue Ruling 58-224, 1958-1 CB242, states that an organization that operates a trade show as its sole or principal activity, primarily for the purpose of bringing buyers and sellers together is rendering particular services to individual persons and is therefore not entitled to exemption from federal income tax as an organization described as a business league in section 501(c)(6) of the Internal Revenue Code.

Men's and Boys' Apparel Club of Florida v. United States, 168 Ct. Cl. 147 (1964), held that "Fashion Shows" and "Market Weeks" conducted by the taxpayer were not merely incidental activities, but constituted a very substantial function which was the organization's principal and most important activity; and this important activity was for the direct economic benefit of individuals rather than for the improvement of business conditions for the industry in general. Accordingly, this particular organization was not entitled to exemption from Federal income tax as an organization described as a business league in section 501(c)(6) of the Internal Revenue Code.

Your organization is like the organizations described in Revenue Ruling 58-224, C.B. 1958-1, 242; and the court case "Men's and Boy's Apparel Club of Florida V. United States, 168 Ct. Cl. 147 (1964)". Your primary activity is to conduct fashion shows to promote the particular business interests of participating designers. Your organization is a cohesive, cooperative trade group of fashion designers who show their collection and designs to retailers seasonally in [REDACTED] at [REDACTED]. Your organization's primary purpose is to arrange fashion shows to facilitate designer business contacts with retailers and manufacturers. You also state that although orders for goods may be taken, all primary sales activities occur following these fashion shows. All of your revenue is derived and expenses incurred from the operation of fashion shows.

Accordingly, we conclude that you do not meet the requirements for exempt status under Section 501(c)(6) of the Code and propose to deny your request for exemption under that section.

Consideration was given to whether you qualify for exemption under other subsections of section 501(c) of the Code. However, we have concluded that you do not qualify under another subsection.

As your organization has not established exemption from Federal income tax, it will be necessary for you to file an annual income tax return on Form 1041 if you are a Trust, or Form 1120 if you are a corporation or an unincorporated association.

4
If you are in agreement with our proposed denial, please sign and return one copy of the enclosed Form 6018, Consent to Proposed Adverse Action.

You have the right to protest this proposed determination if you believe it is incorrect. To protest, you should submit a written appeal giving the facts, law and other information to support your position as explained in the enclosed Publication 892, "Exempt Organizations Appeal Procedures for Unagreed Issues." The appeal must be submitted within 30 days from the date of this letter and must be signed by one of your principal officers. You may request a hearing with a member of the office of the Regional Director of Appeals when you file your appeal. If a hearing is requested, you will be contacted to arrange a date for it. The hearing may be held at the Regional Office or, if you request, at any mutually convenient District Office. If you are to be represented by someone who is not one of your principal officers, he or she must file a proper power of attorney; otherwise qualify under our Conference and Practice Requirements as set forth in Section 601.502 of the Statement of Procedural Rules. See Treasury Department Circular No. 230.

If we do not hear from you within the time specified, this will become our final determination.

Sincerely,

Steven Miller

Director, Exempt Organizations

Enclosures:
Form 6018
Publication 892